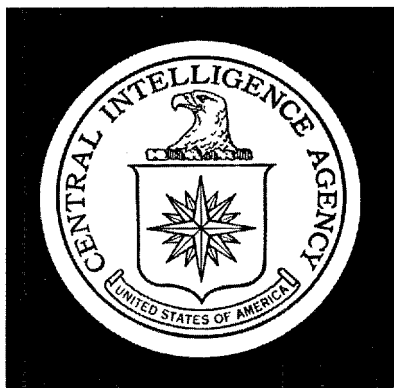


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DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

Special Report

Implications of the 1968 Soviet Military Budget

Secret

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IMPLICATIONS OF THE 1968 SOVIET MILITARY BUDGET

The new Soviet budget for 1968 calls for defense spending to grow by 15 percent, a rate about twice that experienced during the past two years. The military category of the budget does not contain the bulk of expenditures for military research and development or the space program. These probably are included in allocations for "science," which in 1968 will grow by nearly 11 percent.

Combined defense and space spending in 1967 already is larger than at any time since World War II, and will total about 20 billion rubles, or the equivalent of about 56 billion dollars spent in the US. The USSR--with a gross national product less than half that of the US--has been maintaining a military and space effort equal to about 85 percent of the comparable total for the Department of Defense, the AEC, and NASA, if the costs of the Vietnam war are excluded. The added spending planned for 1968 would amount to \$5-\$7 billion if converted from rubles to dollars at rates more accurately reflecting purchasing power parity than the official exchange rate.

Although actual increases probably will be smaller than those announced, they will be large enough to make 1968 the third year in a row that the growth rate for defense and space expenditures has increased significantly. The specific programs to benefit from the increases cannot be identified until direct evidence becomes available. It is unlikely, however, that a single program or force will get the lion's share of the additional money, but rather that a number of strategic programs will be stepped up somewhat and the capabilities of the theater forces improved.

The tensions generated by the Vietnam war, the Arab-Israeli conflict, and the Sino-Soviet dispute may have led the USSR's leaders to decide to make broad improvements in the general purpose forces and the command and general support establishment. The extent to which the recent announcement of US intentions to deploy a thin antiballistic missile (ABM) screen influenced the budget announcement is not known. The Soviet leaders were aware of the public discussions that preceded the announcement and probably took the possibility into consideration in their planning. The US decision undoubtedly strengthens the hand of those Soviet officials advocating increased military spending.

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The Political-Strategic Context

The decisions reflected in the announcement of next year's budget probably represent compromises made within the collective leadership. These decisions have been made against a background of policy problems that the past year's developments have posed for the USSR.

The Soviet leadership is reaching the point where it no longer can afford to postpone major policy decisions. It must decide soon how far and how fast it

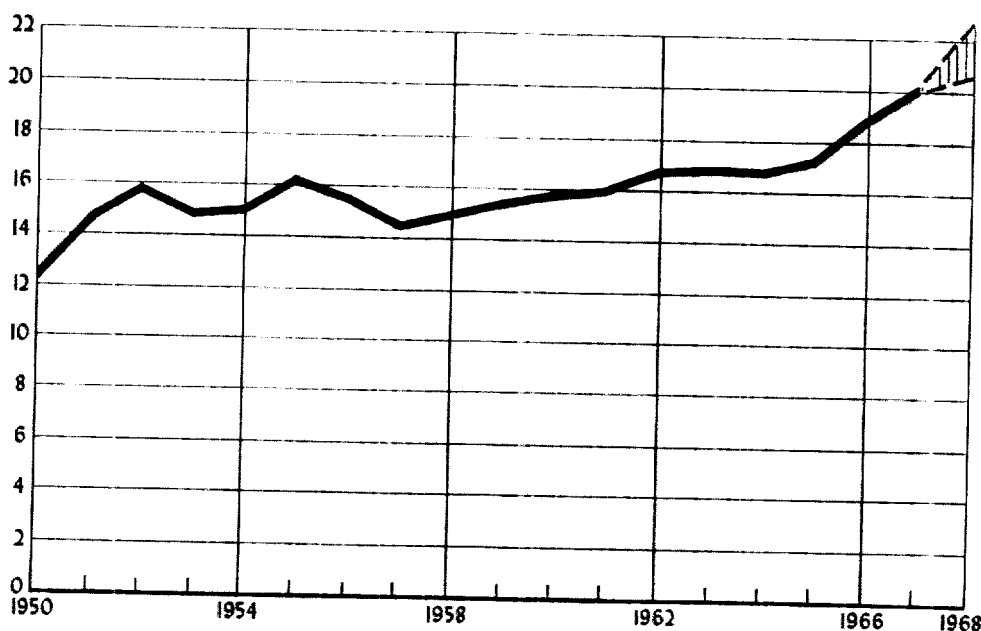
wishes to proceed in implementing its economic reform; what response it is going to make to the US decision on ABM deployment; what additional steps it should take in the areas of active contention with US power and influence, particularly in Vietnam and the Mediterranean; and how large an ICBM force the USSR will deploy.

With the exception of the build-up of conventional forces during the Korean war, most of the sharp rises in the Soviet military budget in the past have

Figure 1

ESTIMATED TOTAL SOVIET DEFENSE AND SPACE EXPENDITURES, 1950-1968*

Billion Rubles



*In 1955 ruble prices. Includes military research and development, space expenditures, and expenditures on security forces.

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been closely associated with the production and deployment of new strategic weapon systems. Normally, only one or two strategic programs have been responsible for the bulk of the increase, with most of the other programs moving up and down in such a way as to cancel out one another.

In 1955, production and deployment of the first Soviet intercontinental bomber strongly influenced spending. Increases in 1961 and 1962, which occurred during periods of tension over Berlin and Cuba, stemmed largely from Soviet efforts to build up a force of medium- and intermediate-range ballistic missiles. The increases in 1966 and 1967 were forced by the decision to undertake simultaneous programs to deploy strategic offensive and defensive systems.

The announced budget also has a political function. It serves to inform the Soviet public, the party and government workers, and the outside world of the leadership's intentions with regard to the allocation of resources. While the announced budget is generally an accurate barometer of direction, it is less accurate as an indicator of the size of change. For example, it is clear that actual Soviet military spending in 1961 did not increase as much as forecast at mid-year, when Khrushchev found it politically useful to announce a large increase.

Dividing the Soviet Military Pie

The costs of operating the Soviet military forces have been

fairly stable over the years. Most of the long-term growth has gone into research and development and the space program. The majority of year-to-year fluctuations have resulted from the phasing of investment--that is, procurement and construction--for new weapons deployment. A large fraction of the research and development effort has been directed toward strategic systems at the expense of tactical forces. (See Figure 2)

The USSR's increasing reliance on sophisticated weaponry has resulted in a downgrading of the old-time foot soldier. Although better paid than his 1950 counterpart, the Soviet soldier of today costs the USSR only one quarter of its military budget. The fact that the budget today is much larger only partially offsets the decrease. The other quarter formerly spent on manpower now is being invested in the development of new weapons.

Because the Soviet budget lacks detail, it is necessary to construct detailed expenditure accounts on the basis of direct costing of observed and estimated military activity. Unlike the gross budget figures, these detailed expenditure accounts can be directly related to information acquired on individual military programs. They permit a thorough examination of the structure of Soviet expenditures as well as the detection of shifts in programs and missions.

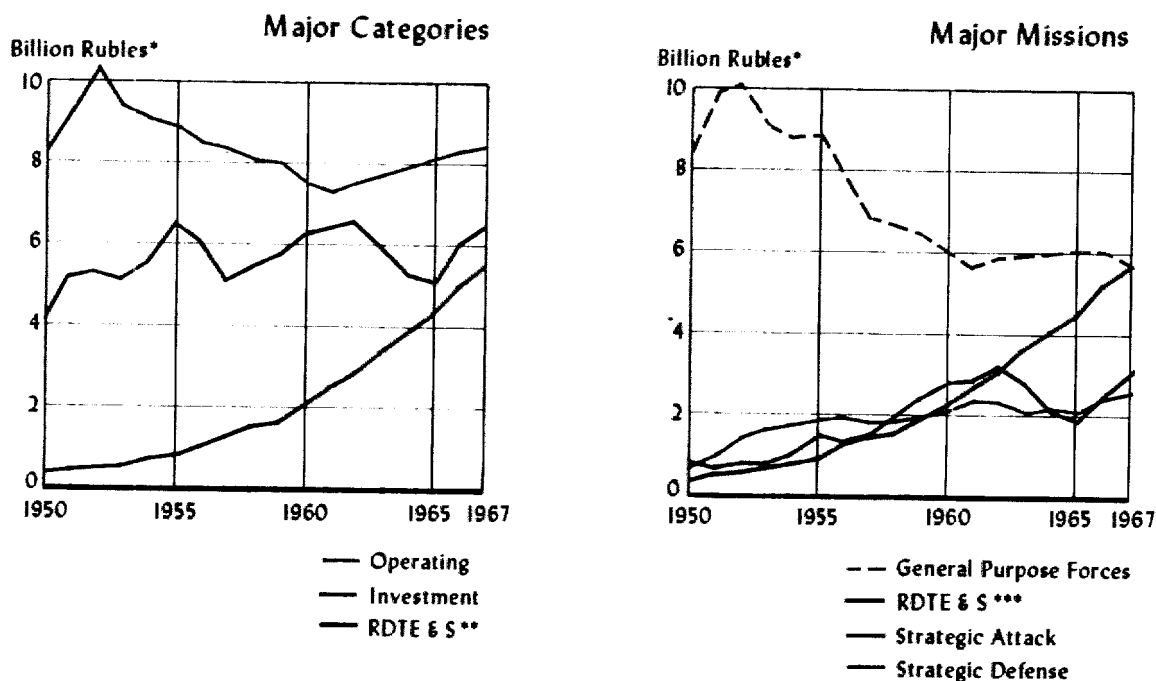
Although the difference between the announced Soviet budget figures and the detailed expenditure

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Figure 2

ESTIMATED SOVIET DEFENSE EXPENDITURES, 1950-1967



Percentage Distribution by Category					
1950	17%	48%	3%	29%	3%
	Operations & Maintenance	Personnel	Facilities	Procurement	RDTE & S**
1967	18%	24%	2%	29%	27%

*Expressed in 1955 prices.

**Research, Development, Test, Evaluation, and Space.

***Includes personnel costs for military manpower engaged in RDTE&S.

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estimates have never been fully resolved, several important considerations account for the bulk of the discrepancies. For example, much of the space and defense-associated research and development effort in the USSR is funded through the science budget. Moreover, some military activities may be included in other budget categories. Expenditures for the military security forces, for instance, are not covered in the budget allocation for defense.

The Soviets have never explained just what the published budget covers. Its scope changes from time to time. Shifts in accounting practices, for example, probably explained a significant

portion of the increased defense budgets in 1961 and 1962.

Before Vietnam, Soviet military and space spending--measured in dollars--generally averaged about 85 percent of comparable US outlays.

As Table 1 indicates, the USSR is spending somewhat more in 1967 for strategic offensive, considerably more for strategic defense, about the same amount for space and military research and development, but only about two thirds as much as the US in total. US spending for general purpose forces and for command and general support, where the costs of Vietnam impact most strongly, is about double Soviet outlays.

Notes

Table 1 *PRM*

US AND SOVIET MILITARY AND SPACE SPENDING		
	1967 <i>C-72</i>	
	Billion Dollars <i>PRB</i>	
	US	USSR
	(Fiscal Year)	(Calendar Year)
Strategic Offense Forces	4.5	6.3
Strategic Defense Forces	1.7	5.1
General Purpose Forces	33.6	16.3
RDTE & Space	14.9	13.2
Command and General Support	28.2	14.9
TOTAL	83.0	55.7

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The figures on Soviet spending show the general size of various programs in terms of what they would cost in the US. - ITAL

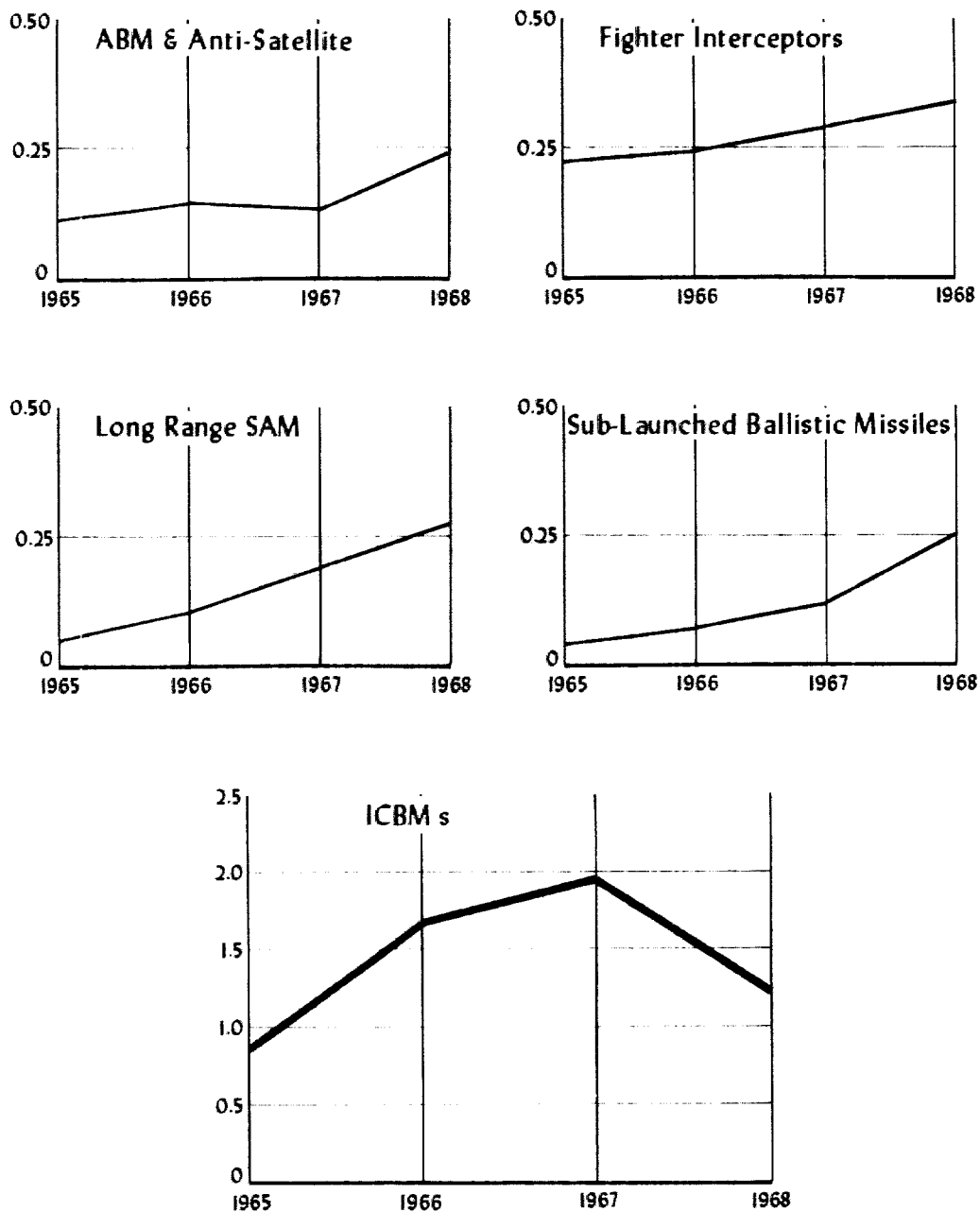
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Figure 3

CURRENT ESTIMATES OF SOVIET INVESTMENT EXPENDITURES FOR SELECTED STRATEGIC WEAPON SYSTEMS, 1965-68*

Billion Rubles **



*Does not include annual operating expenditures

**Expressed in 1955 prices

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Spending the Increase

Since 1965, Soviet expenditures for ICBMs have doubled and outlays for SAM and ABM programs have increased 70 percent. On the basis of current estimates of Soviet ICBM deployment, the costs of the ICBM programs will peak this year and decline considerably in 1968. A new deployment program for intermediate- and medium-range ballistic missiles, estimated to be scheduled for 1968-71, will keep the costs of strategic offensive programs at a relatively high level, however.

A different pattern is expected for strategic defense systems. The programs presently under way or projected in the USSR will require increasing expenditures through 1970 at least.

Expenditures for general purpose forces and for the command and general support establishment together amount to about nine billion rubles. This outlay has changed little during the past several years, although individual programs have been phasing in and out with commensurate shifts in spending. These have tended to balance one another, and projections based on current estimates suggest they will continue to do so.

Of the planned 3-billion ruble increase in Soviet military and scientific expenditure in 1968, less than half--at most--can be accounted for by price increases, civilian research and development,

budget shifts, and increased personnel costs. Between 1.5 and 2 billion rubles remain for actual increases in 1968 in the Soviet military forces and for stepped-up expenditures for space and military research and development. This amount--equivalent to \$3-\$5 billion in goods and services if purchased in the US--is particularly impressive when viewed as a further increment to the large expenditures for strategic weapons that have been made during the past two years.

Relatively few of the military programs under way in the USSR are big enough in themselves to influence the military budget significantly. The largest expenditures made in 1967 are for the SS-9 and SS-11 ICBM deployments, which together will total about 1.7 billion rubles. If these programs do not slack off next year as estimated, or if major qualitative improvements are introduced, ICBM programs next year could raise military expenditures as much as a billion rubles.

No other weapon program is currently as expensive as the ICBM deployment effort. This year, the ABM deployment program around Moscow required about 100 million rubles, deployment of the

million, the program for construction of nuclear-powered ballistic missile submarines approximately 140 million, and aircraft and airborne missile procurement about 300 million. Even though several of these programs are

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expected to grow considerably in 1968, none is susceptible to an annual expansion that would require a major part of the announced military budget increase.

Theater Force and Command and General Support Programs

For a number of years, pressures have existed within the USSR for upgrading the capabilities of the general purpose forces as well as the command and general support establishment. Such improvements would give the Soviet leaders greater capability for influencing international situations through the use of conventional forces. These pressures appear to have been held in check by the cost of developing and deploying strategic systems, but any general loosening of the restraints on military spending will release pent-up demands accumulated over a number of years. The requirements will extend to many program areas and could generate sizable increases in expenditures.

Annual spending for the general purpose forces has been relatively stable at a level of about six billion rubles in this decade. The command and general support structure has received about three billion rubles annually. A stepped up effort to improve the mobility or limited war potential of the Soviet military machine could raise outlays as much as a billion rubles next year.

Several programs might benefit from such an increase. For

200 million rubles, for example, 200,000 men could be added to the Soviet armed forces. A crash program to augment the mobility, firepower, and tactical air support of the ground forces might require an increase of about 300 million rubles, and a speed-up in the introduction of new transport aircraft could raise outlays by about 100 million rubles. Improvements in the surface fleet, naval air arm, and submarine attack forces could require 200 million more.

In many ways, the summer of 1967 was traumatic for the Soviet leaders. One significant result--concern for the level of military readiness--has probably already generated increased operating and maintenance costs. At least one conference of military district commanders held during the year placed great stress on maintaining high levels of preparedness among the troops. In September, the massive "Dnepr" exercise was conducted in western USSR. In addition, more Soviet troops have been shifted to the border areas of the Far East, and the USSR's naval presence in the Mediterranean has been increased. This improved readiness posture is making additional demands on fuel supplies and logistics facilities. Its continuation could cost the USSR an additional 100 to 200 million rubles annually.

Military and Space Research and Development

Soviet expenditures for military and space research and

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development have climbed steadily over the years, roughly paralleling trends in the US. The decline in the annual rate of growth of these expenditures during the past few years has been reversed by the announced increase in the Soviet science budget for 1968. Because of the very diffused nature of scientific research in the Soviet economy and because of the lag between program initiation and identifiable results, the direction of next year's increase probably will not be identifiable before 1969.

The space program cost the USSR an estimated 2.3 billion rubles this year. Of this, approximately 1.8 billion is being spent on the civilian space effort, much of it for the Soviet lunar and interplanetary program.

A large boost in the space program probably would be directed to the military sector, whose primary responsibilities are the reconnaissance satellite program and, presumably, the development of a manned orbiting laboratory. An all-out effort to improve the military space program could add as much as 400 million rubles to the military and science budget. There is no evidence, however, that a greatly accelerated program is under way.

Artificial Effects: Inflation
And Accounting Shifts

A number of factors could exaggerate the real significance of the announced budget increase.

A general change in wholesale prices for military hardware and other commodities used by the military was made in mid-1967. Although the net effect of these price changes is far from clear, it appears unlikely that the over-all inflation of the budget would exceed 500 million rubles, and it probably would be less.

Some of the announced increase may be accounted for by a shift of additional military programs into the military budget from other categories. One place where changes of this type could occur is in the accounting for foreign military assistance. If made, such a change would be unlikely to amount to as much as 500 million rubles in 1968.

A broad military pay increase in 1968 to parallel wage increases for certain nonmilitary workers could add 200 to 300 million rubles to the budget. An increase is long overdue, but there is no evidence that one is planned.

In sum, price increases, accounting shifts, and military pay increases could combine next year to exaggerate the significance of the larger defense and science budgets. It is extremely unlikely, however, that the three together could account for much more than a billion rubles; their combined effect more likely will be less. A large fraction of any such "artificial effects" probably would be in the military section of the budget rather than the science category.

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